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Incentives Are Luring Car Buyers, But What Will Happen in the Fall?

YOUR MONEY MATTERS

By Dale D. Buss
And Doron P. Levin
Staff Reporters of The Wall Street Journal

Until eight days ago, Lori Fowler was prepared to settle for a used car. Then General Motors Corp.'s new, cut-rate loan offer suddenly made buying a new one a real possibility.

"I hadn't even considered a new car until I heard about the 7.7% loans," says the 24-year-old Aberdeen, S.D., bookkeeper. This week she bought a 1985 Chevrolet Cavalier subcompact for $9,700, and financed about $5,000 of the purchase price. "My monthly payments are only about $130," she says happily.

Customers like Ms. Fowler have been streaming into GM, Ford Motor Co. and Chrysler Corp. dealerships across the country in the past few days in response to the Big Three's most extensive buyer-incentive programs in years. The auto makers are offering loans at interest rates as low as 7.5%, versus prevailing rates as high as 15%, or cash rebates of up to $1,500 on leftover 1985 models. The result has been a sales bonanza.

Worried Auto Executives

But there's a big problem under the hood of the current sales juggernaut. Some auto executives, dealers and industry analysts worry that the miniboom may be only masking an underlying softness in the market for domestic cars. They fear that Big Three sales may go into a slide once the incentives expire at the beginning of October and the auto makers start trying to sell new, more-expensive 1986 models. The suspected culprits: a lagging economy and growing Japanese imports.

"The most competitive business in the world is getting more competitive," says James G. Vorhes, GM's vice president of customer sales and service. "And it will stay that way for a while."

Adds Scott Merlis, automotive analyst for Shearson Lehman Brothers Inc.: "The sales incentives will probably lose their magic after a month, because underlying demand is weak. We're looking for a cool-down in the auto cycle" as the year progresses.

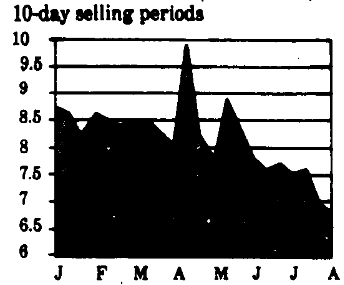
A lag in GM's sales is what initiated the incentive programs. The No. 1 auto maker announced its program on Aug. 15 in a bold and expensive move to recapture market share lost over the past few years to Ford, Chrysler and importers. For GM at least, the lures have the added virtue of helping to clear the many vehicles that backed up during the recent 19-day Teamsters union strike against car-hauling companies. (The incentives and other GM moves to meet tougher competition will affect the company's stock, which has been trading far below its 1985 peak. See story on page 37.)

Ford, Chrysler and, yesterday, American Motors Corp. have followed with their own programs, but they did so reluctantly. Ford's moderate inventories can't stand too much shrinkage; Chrysler apparently doesn't mind its more-than-ample inventories of new cars as it faces a possible United Auto Workers strike in mid-October; AMC has been reporting huge losses.

For now and the next few weeks, however, thousands of harried dealers are tired and smiling. At Ed Rinke Chevrolet in Center Line, Mich., a blue-collar suburb of Detroit, the showroom was swarming with customers late Wednesday afternoon. Salesmen griped about missing lunches all week, and hassled clerical workers grumbled about the tall stacks of loan applications they were getting ready for GM's financing arm, General Motors Acceptance Corp.

Slumping Sales

Seasonally adjusted annual rate of domestic cars sold, in millions, in 10-day selling periods



Source: Commerce Department

"If it's got 7.7% and wheels on it, it's selling," said Gary Hawrys, a sales manager at the dealership. Rinke's business this week has been "up probably 500%" over a week earlier, Mr. Hawrys added, and his biggest concern was the paucity of 1985 cars he'll have to sell for the last few weeks of GM's program, which ends Oct. 2.

Says Jack Woltz, a Ford dealer in Heidelberg, Pa.: "Traffic was pretty dead before this, and then the (haulers') strike helped keep people away. But now we're up about 50%."

The incentives are attracting a variety of buyers. Many would be purchasing used models if it weren't for the cut-rate loans and the rebates. Others had only toyed with the idea of buying any car.

David Scudder, a retired CIA economist, says he talked to his wife all summer about buying a new car, and "never got a response. But when she saw an article on the low rates, I got a response." So Mr. Scudder went to a Buick dealership in Arlington, Va., to deal on a mid-size Century model.

Mary Hoover, a sales representative for a suburban Detroit engineering company, is taking full advantage of GM's 7.7% financing. She sold her 1984 Oldsmobile Firenza and used her equity in the car to pay off a family debt. At the same time, she financed the entire $10,000 purchase price of a new Pontiac Sunbird. "My payments are going to be $257 a month, just a little more than my previous car."

As eager as Detroit is for sales, however, there is another type of buyer who points up the problems the Big Three may have when the incentives expire. Frederick Hodde is a good example. Because his deadline for buying a new car is the family's annual trip to Florida next April, the 51-year-old computer engineer probably would have waited for the 1986 models to purchase a new Oldsmobile Cutlass. "But this looks like a good time to buy," said Mr. Hodde, who was negotiating with his Boonton, N.J., dealer last night.

Wait Until Fall?

Dealers and auto executives would rather see buyers like Mr. Hodde wait for the higher-priced 1986 models this fall. If they don't, sales in October and perhaps afterward will suffer.

There's also anxiety in Detroit about the longer-term health of the car market. Typical of forecasts is that by Wendy Beale, an analyst for Smith Barney Inc., who expects sales of domestic makes to drop to 7.1 million units next year from an estimated 8.2 million this year and 7.9 million last year.

Increased imports and general economic weakness are the industry's main hindrances. "People aren't buying sweaters" and other lower-priced retail items "so they're not going to be buying cars," says Maryann Keller, automotive analyst for Vilas Fischer Associates Ltd.

Some Big Three dealers say that, to squeeze out sales in such a market, the industry may have to return to the same approach it used in the four-year sales slump that ended in early 1983. During that period it had to offer some form of incentive nearly perpetually to attract balky buyers.

But auto makers would prefer a different strategy. Says Bennett Bidwell, executive vice president of Chrysler: "We've got to get costs down so we can compete on price. We don't want to live or die on endless rebate programs."

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